Global Real Estate Securities Market Update

Second Quarter 2024

July 9, 2024

Before we get started

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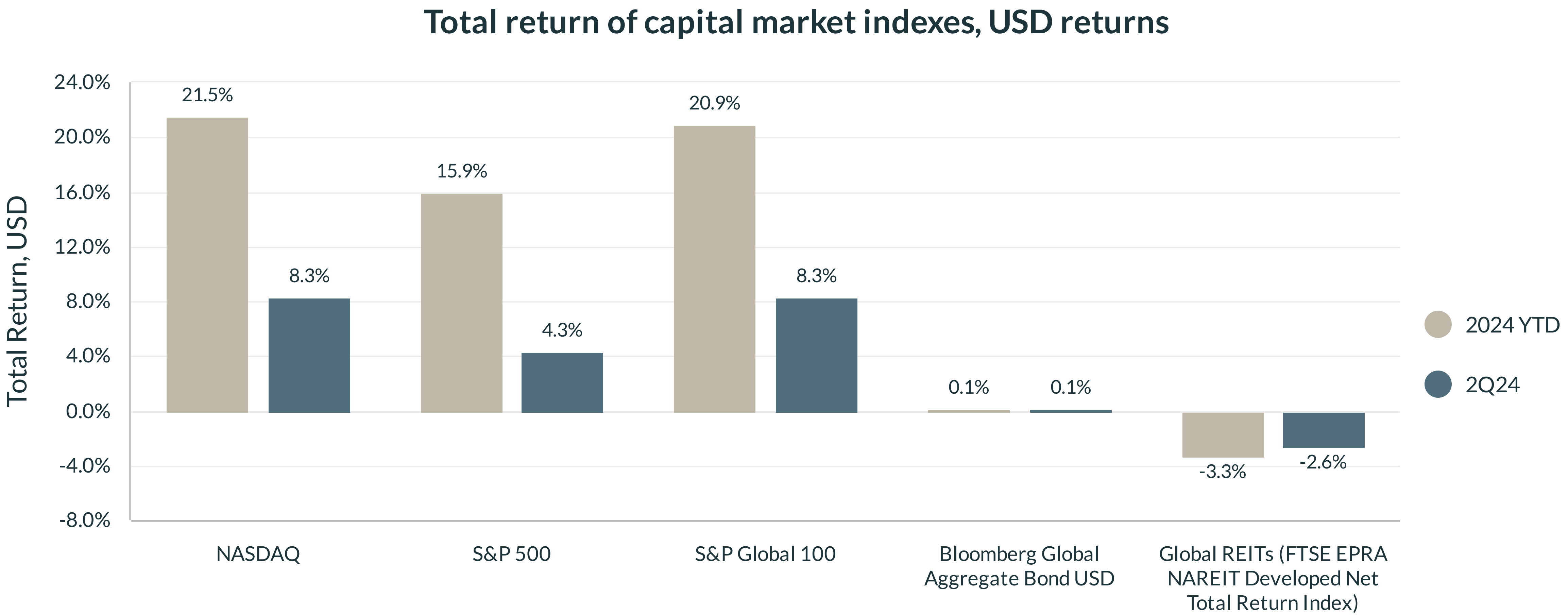
Global REIT Market Performance

REITS continued to trail broader equity markets in 2Q24

Global REITs fell further behind broader equities and bonds in 2Q24

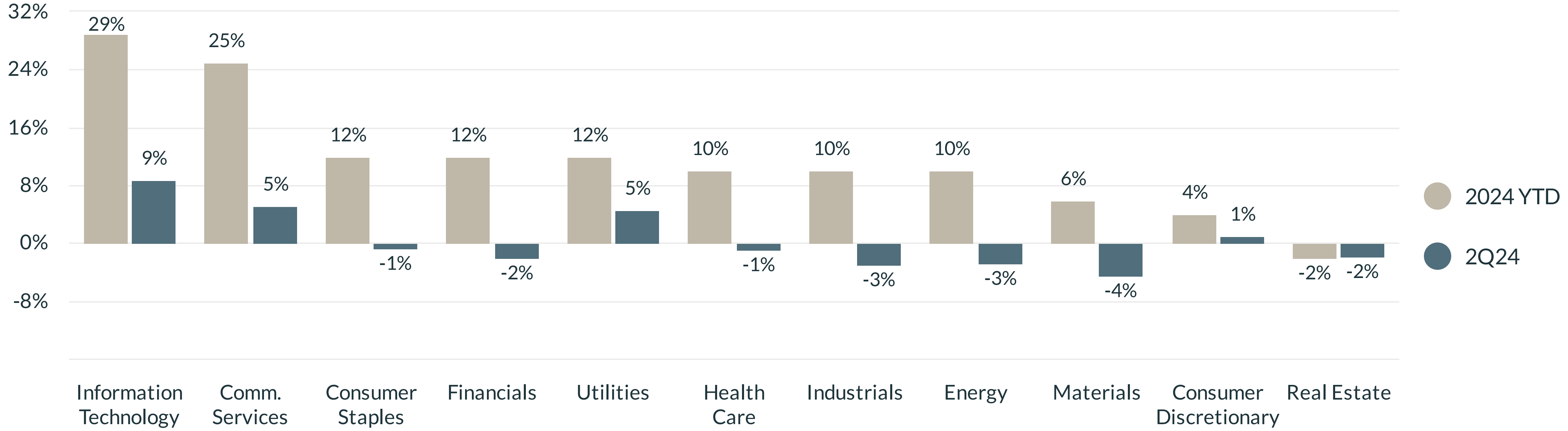


Sources: FTSE Russell and Bloomberg, LLC, July 1, 2024

Momentum continues, battering value

The S&P 500 (U.S. equities) was up another 4.3% in 2Q24. The main themes from the post-pandemic rally continued: large > small, growth > value, quality > risk. The **technology** and **communication** sectors maintained their momentum, leading the market again in 2Q24. Conversely, defensive industries like **energy**, **consumer staples**, and **real estate** continued to lag

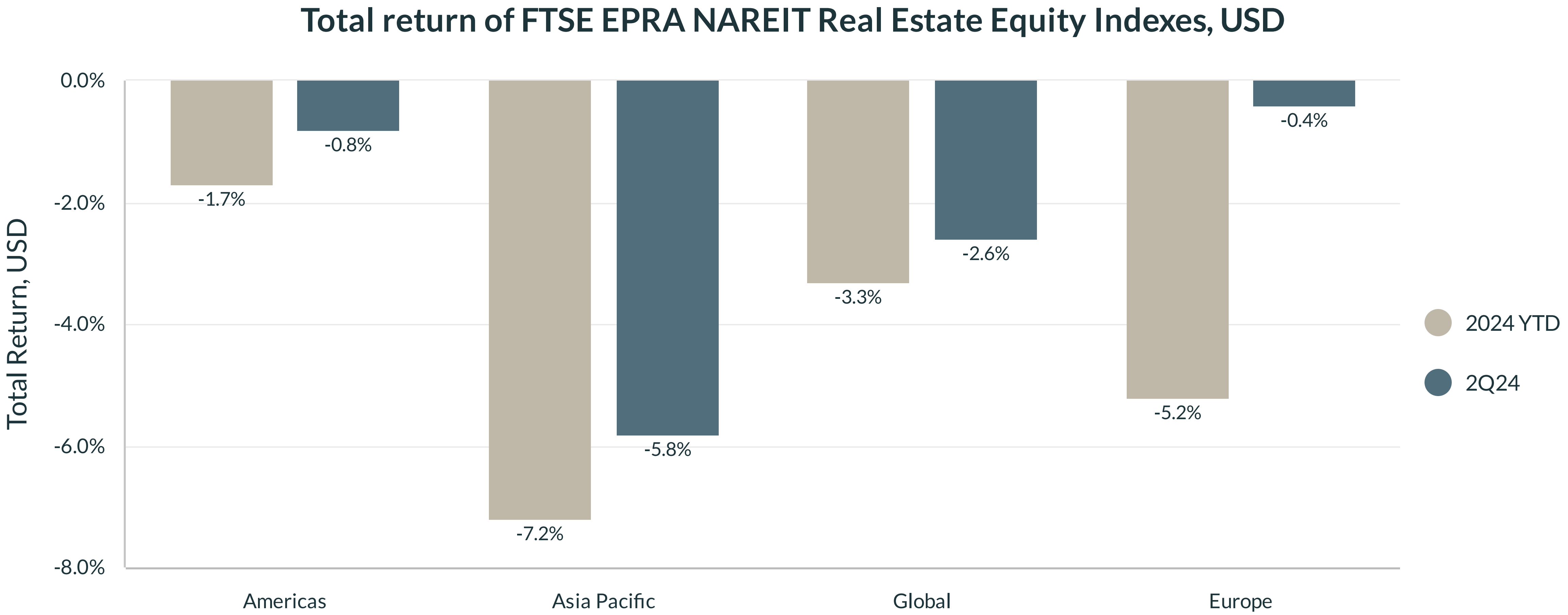
S&P 500 total return by sector (%)



Source: Bloomberg LLC, July 1, 2024

All REIT regions fell, again

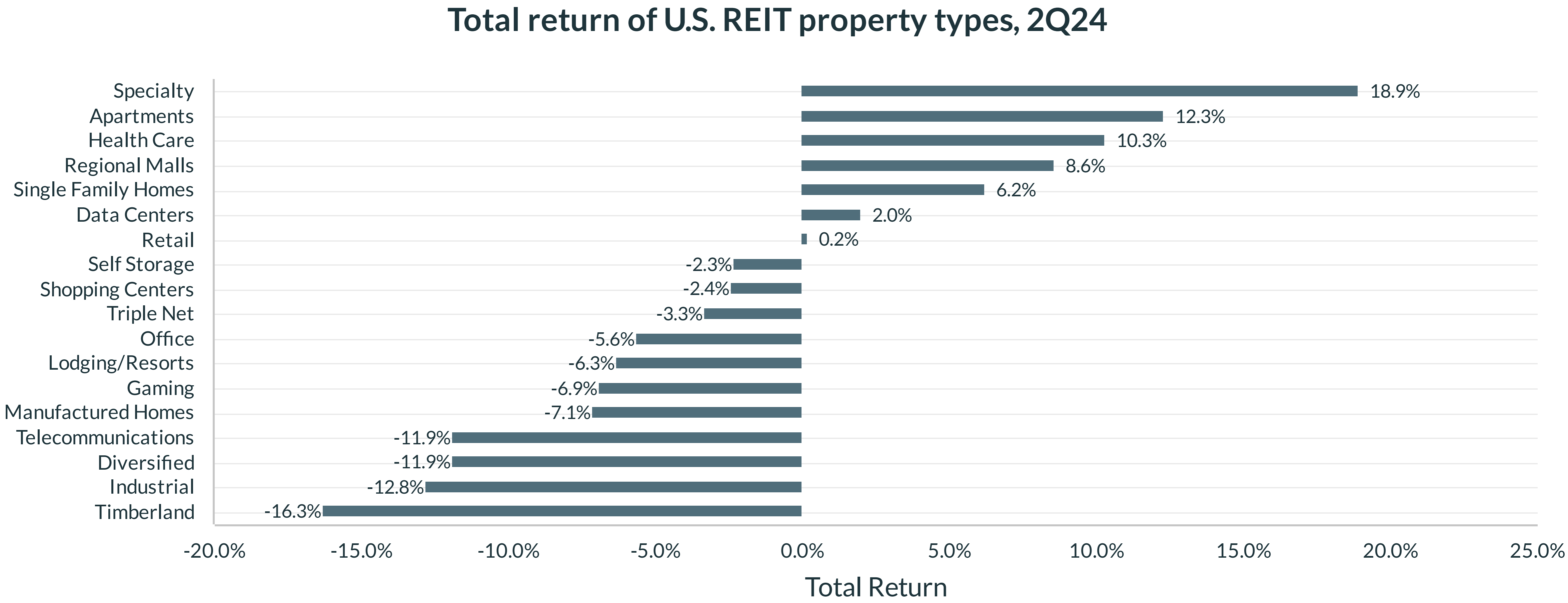
Asia Pacific was down ~6% while Europe and the Americas were down only marginally



Source: FTSE Russell, April 1, 2024

Residential, Health Care and Specialty outperformed

In the U.S., **Specialty REITs** topped the charts in 2Q24. **Malls, Apartments, SFRs,** and **Health Care** also outperformed. **Cell Towers, Diversified, Timberland,** and **Industrial** fared the worst



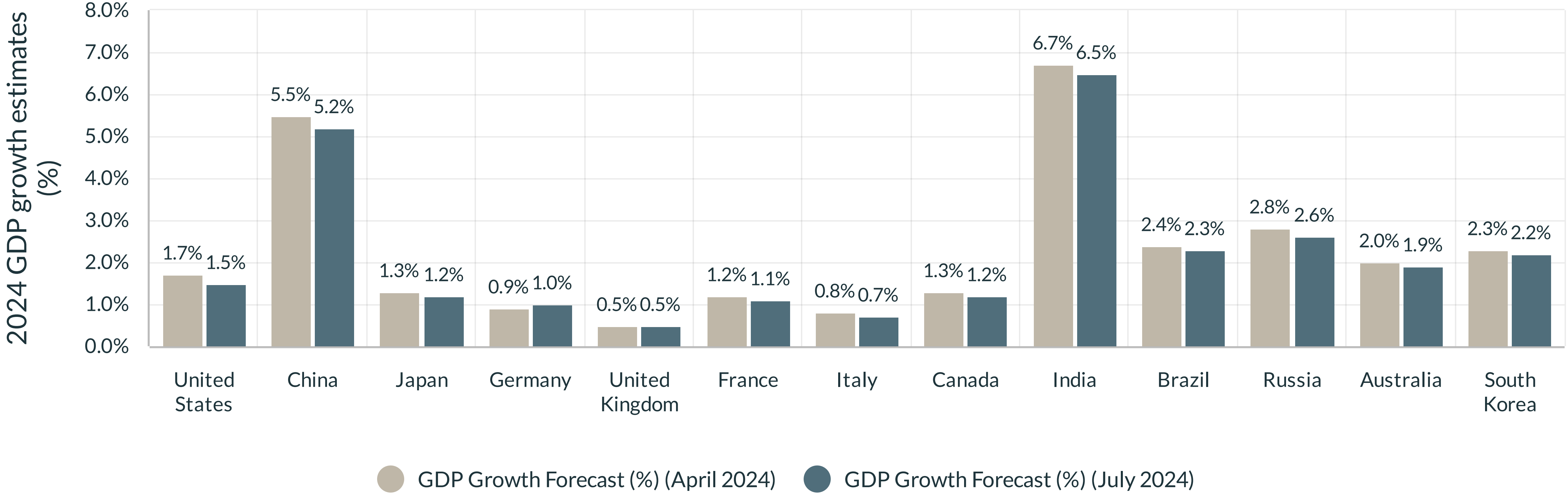
Source: NAREIT, market data as of June 30, 2024

Investment Backdrop

Economic projections show slow but stable growth

The latest GDP forecasts for 2024 show modest changes since April. In the U.S., the projection has dipped from 1.7% to 1.5%. China's forecast has decreased marginally from 5.5% to 5.2%. Japan's outlook has seen a slight drop from 1.3% to 1.2%, while Germany's has improved from 0.9% to 1.0%

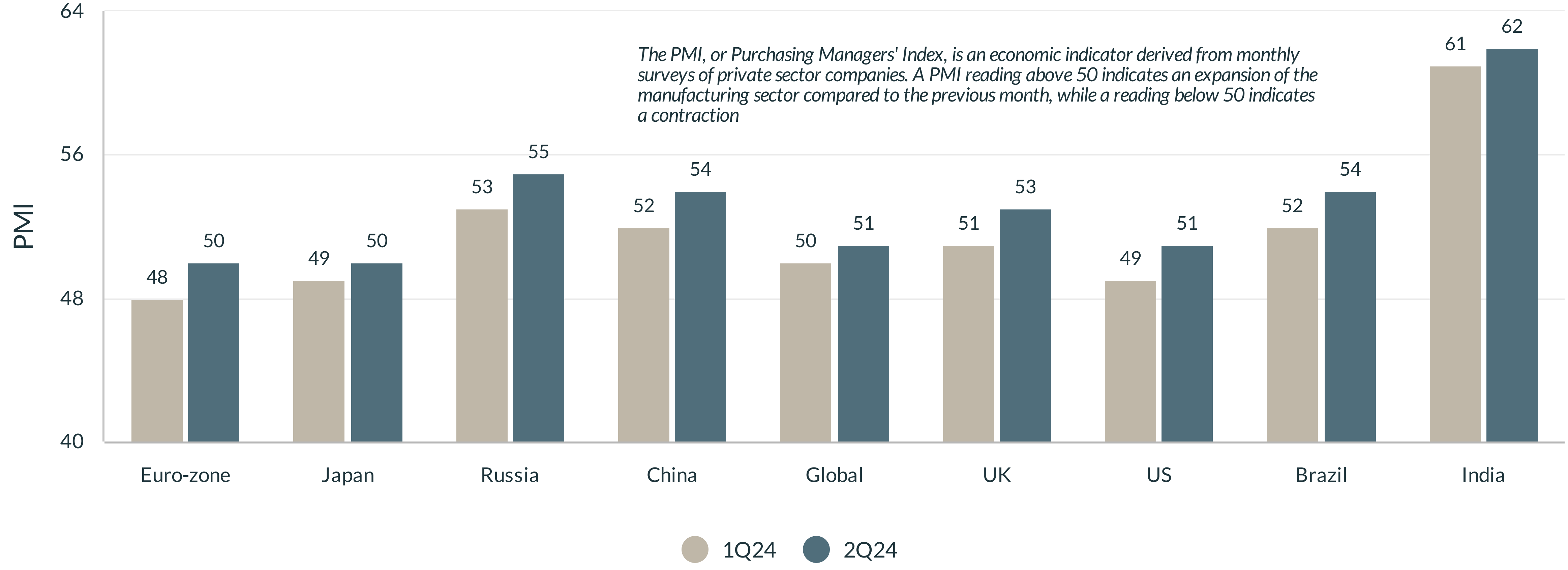
2024 GDP growth forecasts, July 2024 versus April 2024



Sources: *IMF World Economic Outlook*, April 2024; Consensus Economics and Visual Capitalist reports on GDP forecasts for 2024

PMIs suggest that GDP improvement continued in 2Q24

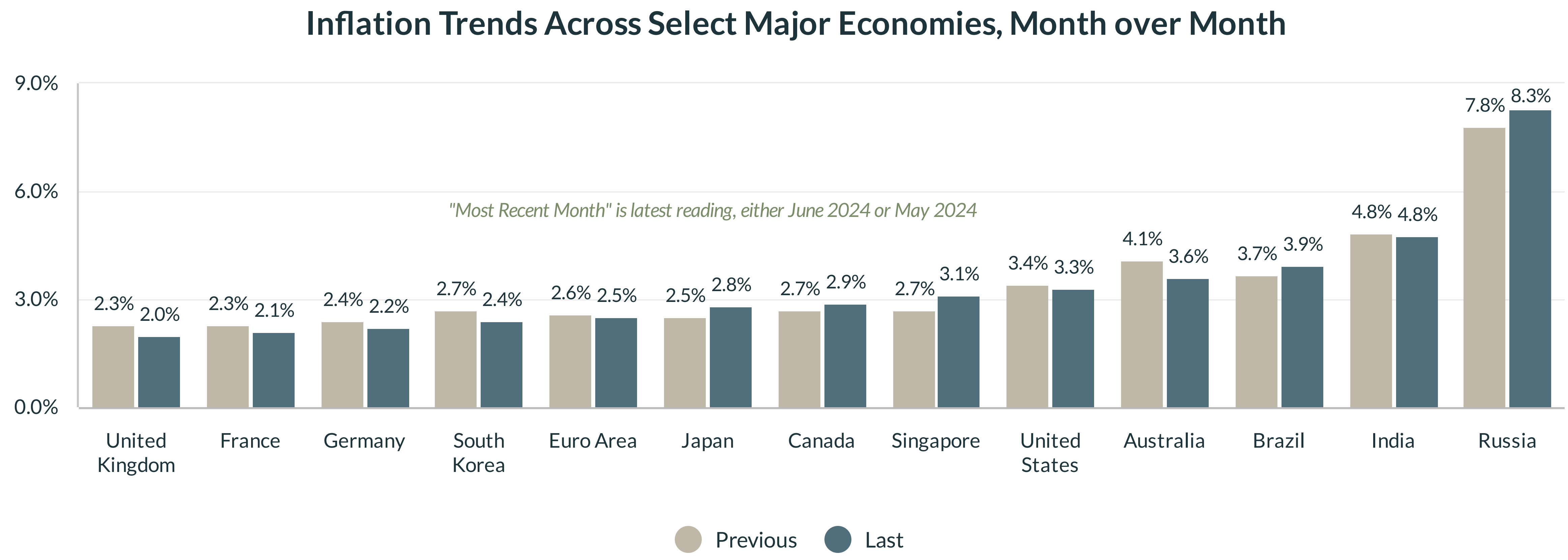
A global recovery seems set to take hold as the adverse effects of the previous surge in inflation subside



Source: Capital Economics, *Q3 2024 Global Economic Outlook*, June 2024

Inflation: more mixed results across the globe

The path to taming post-pandemic inflation remains uneven worldwide. Inflation inched **down** in the U.S., Australia, South Korea, Europe, and India, but was **up** in Japan, Canada, Singapore, Brazil, and Russia



Source: Trading Economics, https://tradingeconomics.com/country-list/inflation-rate-, data pulled July 3, 2024

Most global central banks show an easing bias

In 2Q24, major central banks, including the ECB and PBoC, cut rates, hinting at further cuts later this year. The Fed and BoE look likely to cut some time in 2024. The BoJ is heading in the opposite direction, having raised rates in 1Q24. Emerging markets face complex inflation dynamics and cautious policy adjustments

Central Bank	Current Interest Rate (%)	Policy Status
Federal Reserve (USA)	5.25 - 5.50	Maintained current rates; potential cuts expected later in 2024 as inflation moderates and economic conditions stabilize
European Central Bank (ECB)	3.75	Cut in June; more potential cuts anticipated as inflation trends downward in the latter half of the year
Bank of England (BoE)	5.25	Halted additional rate increases; potential rate cuts expected later in the year as economic conditions evolve and inflation stabilizes
Bank of Japan (BoJ)	0.0 - 0.1	Increased policy rate from -0.1% to between 0% and 0.1%; potential further increases due to wage growth and fiscal stimulus
People's Bank of China (PBoC)	2.50	Moderate policy support continues with controlled pace due to structural headwinds and global economic conditions
Latin America	Varies	Upward revisions in GDP forecasts; complex inflation dynamics may complicate further policy easing

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Sources: Euromonitor International; global central bank websites, July 2024

Where does the Fed find itself?

The Fed's dot plot, updated in June 2024, now indicates only **one** rate cut for the year, down from three at the beginning of the year

Powell's semi-annual testimony before Congress is July 9-10, coinciding with the publication of this report. We don't expect the chair to break any news

Key Statements from the FOMC Press Conference June 12, 2024

"Our economy has made considerable progress toward [our dual mandate objectives] over the last two years."

"The labor market has come into better balance, with continued strong job gains and low unemployment."

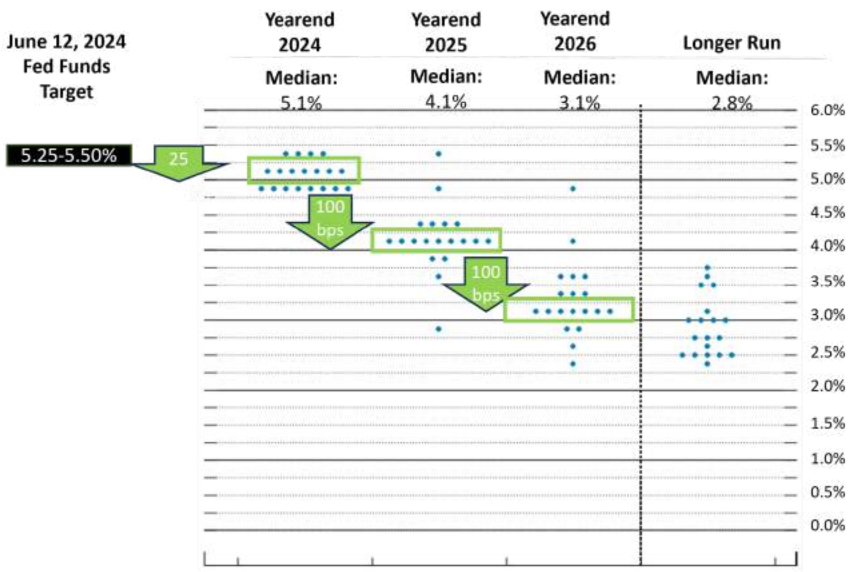
"Inflation has eased substantially from a peak of 7% to 2.7% but is still too high."

"Growth of consumer spending has slowed from last year's robust pace but remains solid. Investment in equipment...has picked up from its anemic pace last year."

"We do not expect it to be appropriate to reduce the fed funds rate until we have gained greater confidence that inflation is moving sustainably toward 2%."

"Strong job creation...has been accompanied by an increase in the supply of workers, reflecting an increase in labor force participation for people 25-54 and a strong pace of immigration ."

June 2024 Fed Dot Plot



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Source: JP Morgan, June 2024. https://www.jpmorgan.com/insights/outlook/economic-outlook/fed-meeting-june-2024

Handicapping the U.S. election

The election outcomes could have profound economic implications, as highlighted by Moody's Analytics. The Democratic and Republican candidates have advanced divergent economic agendas, ranging from tax reforms to trade and immigration policies, which may significantly impact the nation's economic trajectory and commercial real estate markets for years. Various election scenarios probabilities are from Moody's

1 | Democrat Wins, Republican Congress (40% Probability)

- Economic Environment: Steady economic growth, low inflation
- Policy Impact: Continuation of current policies, minimal changes in tax policy and regulatory environment

2 | Republican Sweep - Trump Wins, Republican Congress (35% Probability)

- Economic Environment: Mild recession by mid-2025, higher inflation, stagflation risks
- Policy Impact: Significant policy changes including universal 10% tariffs, reduced corporate tax rate, and dismantling of the Inflation Reduction Act

3 | Trump Wins, Democratic Congress (15% Probability)

- Economic Environment: Weaker growth than baseline, but less severe economic disruption compared to a Republican Sweep
- Policy Impact: Limited scope of policy changes compared to a full Republican Sweep

4 | Democratic Sweep - Democrat Wins, Democratic Congress (10% Probability)

- Economic Environment: Increased social spending, higher deficits, focus on equity
- Policy Impact: Implementation of Biden's FY2025 budget with higher taxes on wealthy individuals and corporations

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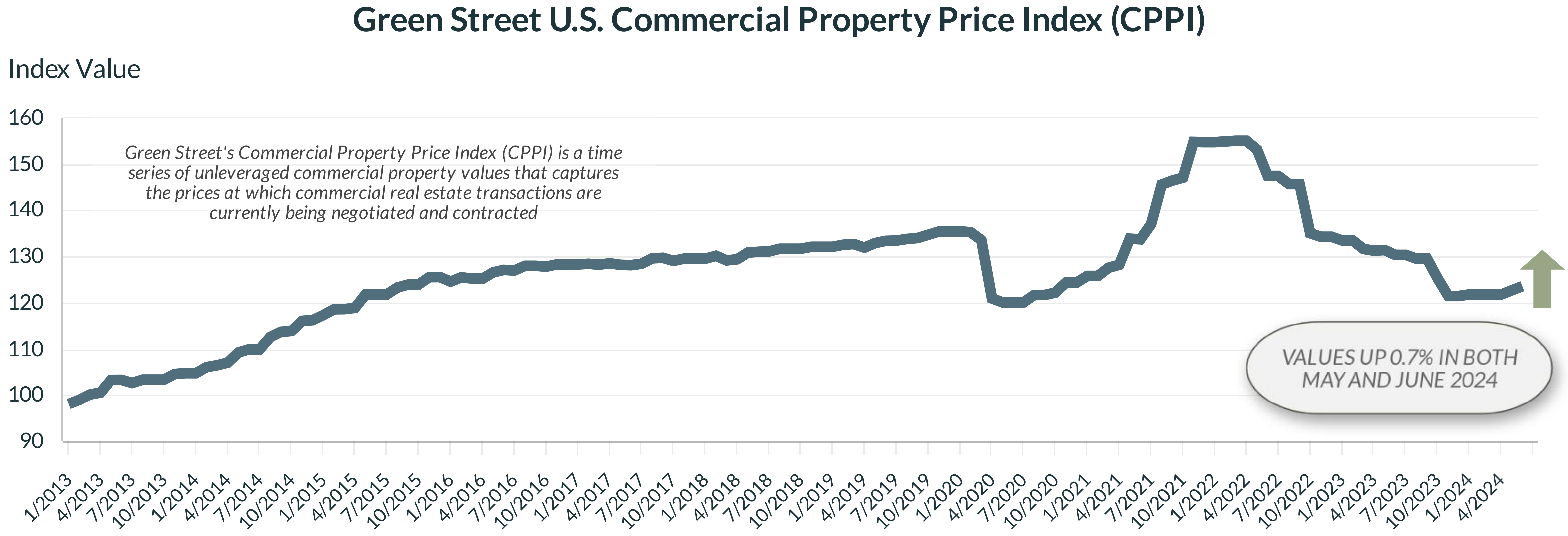
Source: *Assessing the Macroeconomic Consequences of Biden vs. Trump*, July 5, 2024.
https://www.moodys.com/web/en/us/about/insights/podcasts/moodys-talks-inside-economics.html

Global Real Estate Markets

Commercial property prices continue to rebound

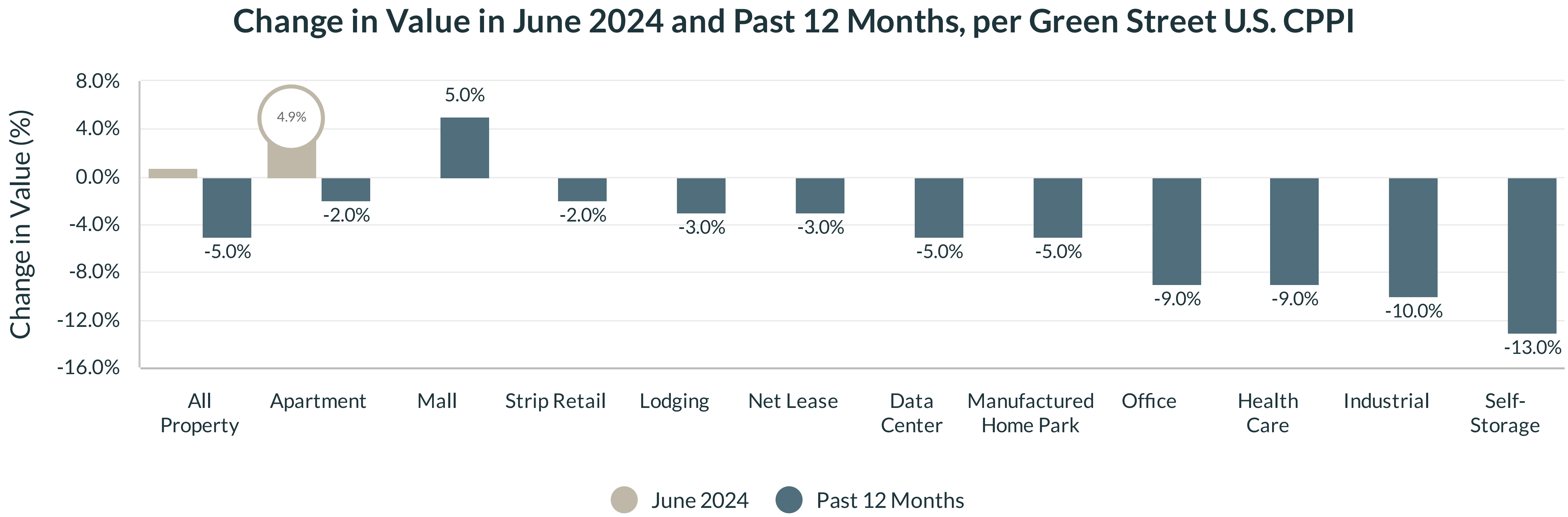
The Green Street Commercial Property Price Index rose 0.7% in June, with **apartment prices climbing 5%**. While some property types saw stagnant pricing, overall values have trended upward since late last year



Source: Green Street Advisors, LLC, July 7, 2024

Surging apartment prices elevate overall market valuations

In June 2024, **apartments rose 4.9%**, dragging up the entire U.S. All Property index by +0.7%. All other sectors were flat. In the past 12 months, the U.S. All Property Index is down 5%, with industrial -10%, office -9%, health care -9%, data centers -5%, and self storage -13%



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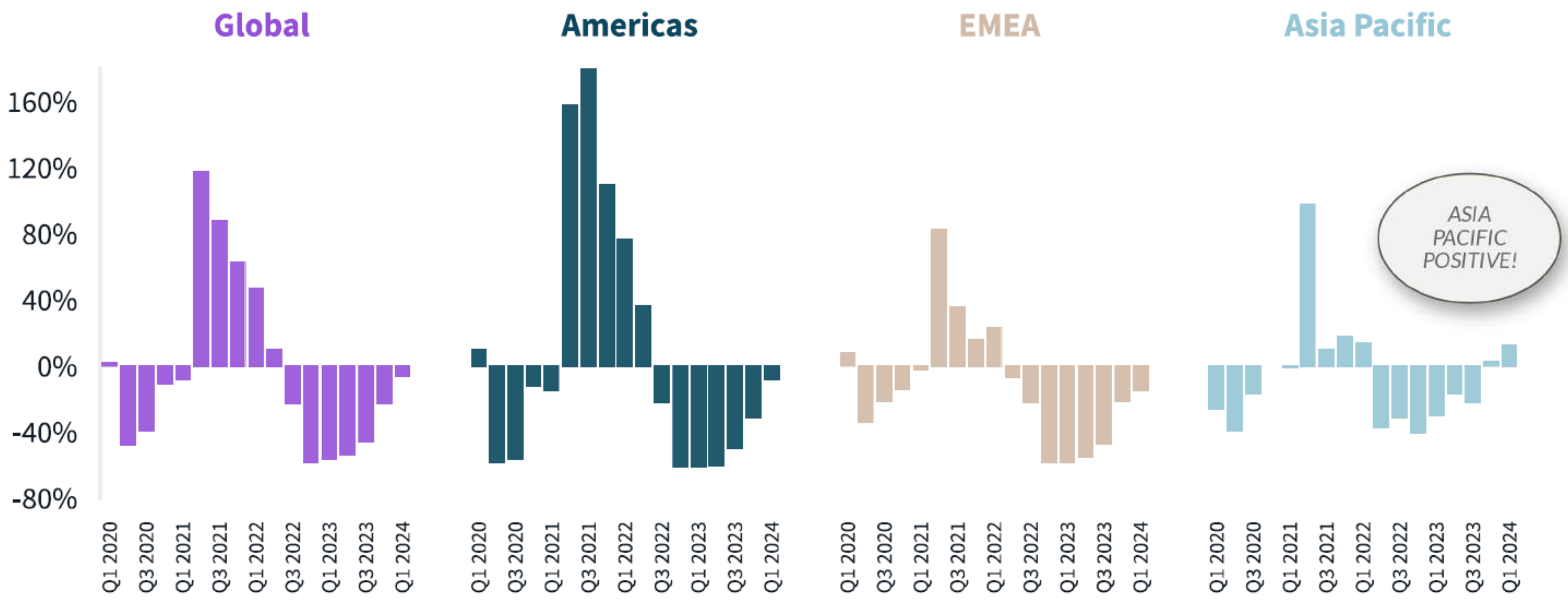
Source: Green Street Advisors, LLC, July 7, 2024

Transaction volumes have slowed, though the decline eases

Global direct investment declined 6% to $135 billion in Q1, with 34% drop over 12 months. However, activity improved in Asia Pacific, led by South Korea (73%), Japan (29%), and Singapore (14%)

Quarterly yoy change in direct investment by region, 1Q20 - 1Q24



The industrial and logistics sector showed resilience, with 2% global growth in activity supported by investor interest. Sector diversification and M&A activity, especially in logistics, data centers, and living platforms, are on the rise

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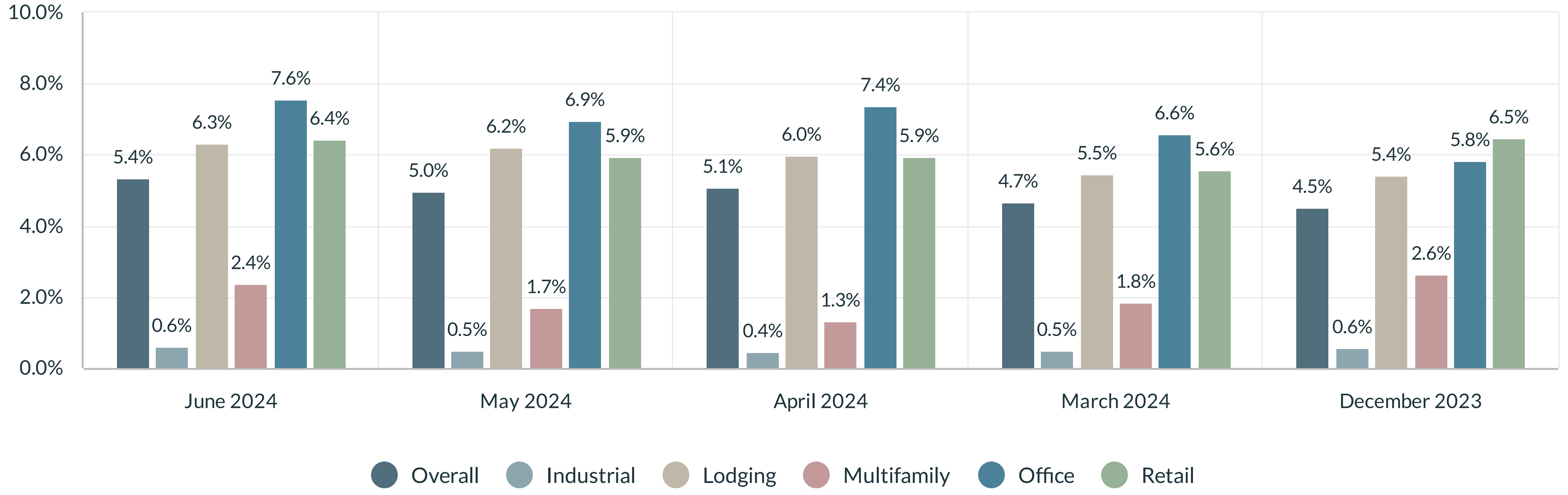
Source: JLL Global Real Estate Perspective - Highlights, May 2024

CMBS delinquency jumped to over 5%; three sectors saw spikes

The **office** sector accounted for half of the $2 billion net increase in delinquent loans in June, with $1.87 billion in new delinquencies offset by $900 million in previously delinquent loans. **Retail** and **multifamily** sectors also saw large increases, accounting for 27% and 20% of the net rise, respectively

Special servicing rate by property type (%)

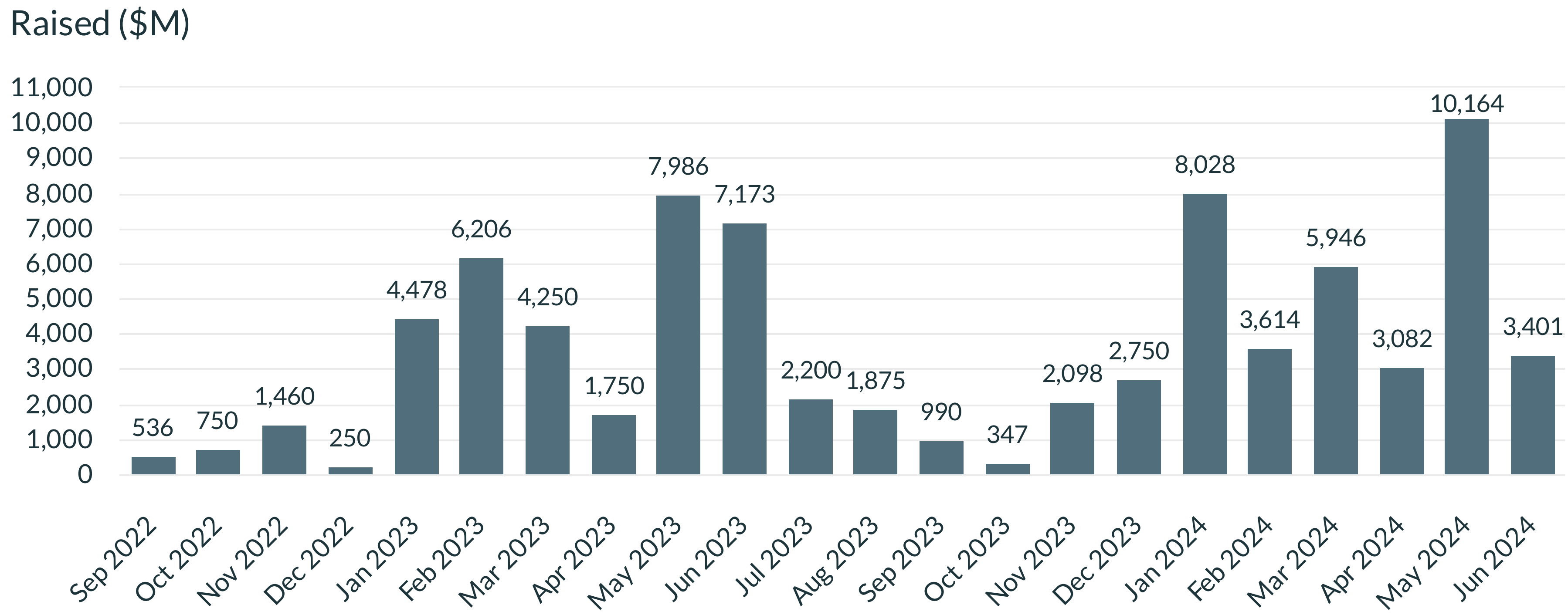


Source: Trepp CMBS Research, July 2024

Capital markets are wide open for REITs

In the first half of 2024, REITs raised $34.2 billion across common equity, preferred equity, and debt offerings, a **10% yoy rise**, reflecting strong capital markets for REITs . **Unsecured debt dominated** with $25.4 billion. Despite some struggles in private markets, the public REIT capital markets are very much open

Historical offerings of securities, U.S. REITs, September 2022 - June 2024



1

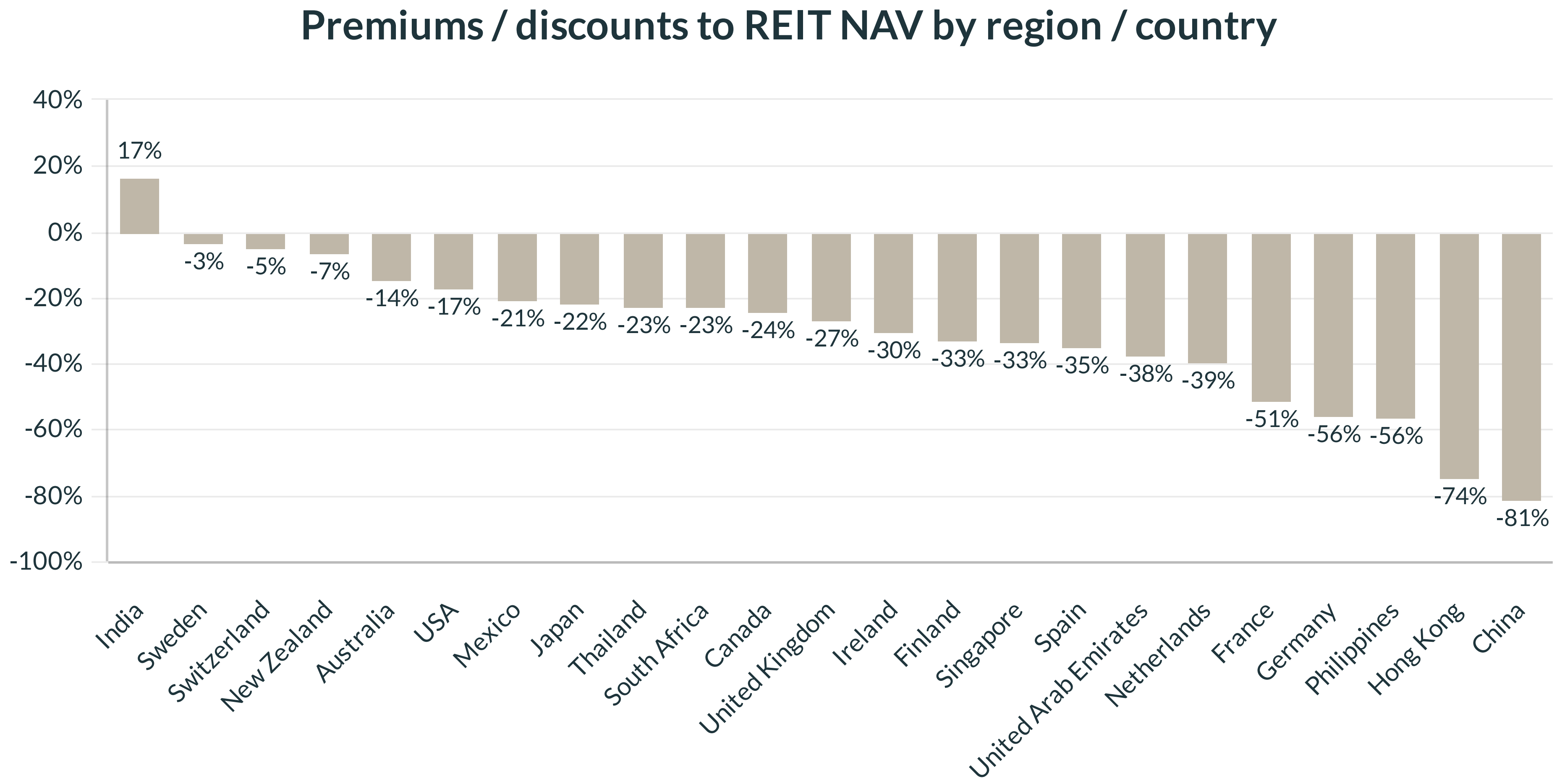
U.S. REIT IPO SINCE 2021

While secondaries are plentiful, IPOs have been scarce. American Healthcare REIT's 2023 REIT IPO raised $773 million. The company owns a diverse healthcare portfolio across the US and UK

Source: Nareit, S&P Global Market Intelligence, July 2024

Global REIT valuations diverge from asset values

Global discounts expanded slightly to 30% from 26% at the end of 2023



Source: S&P Global Market Intelligence LLC, July 5, 2024

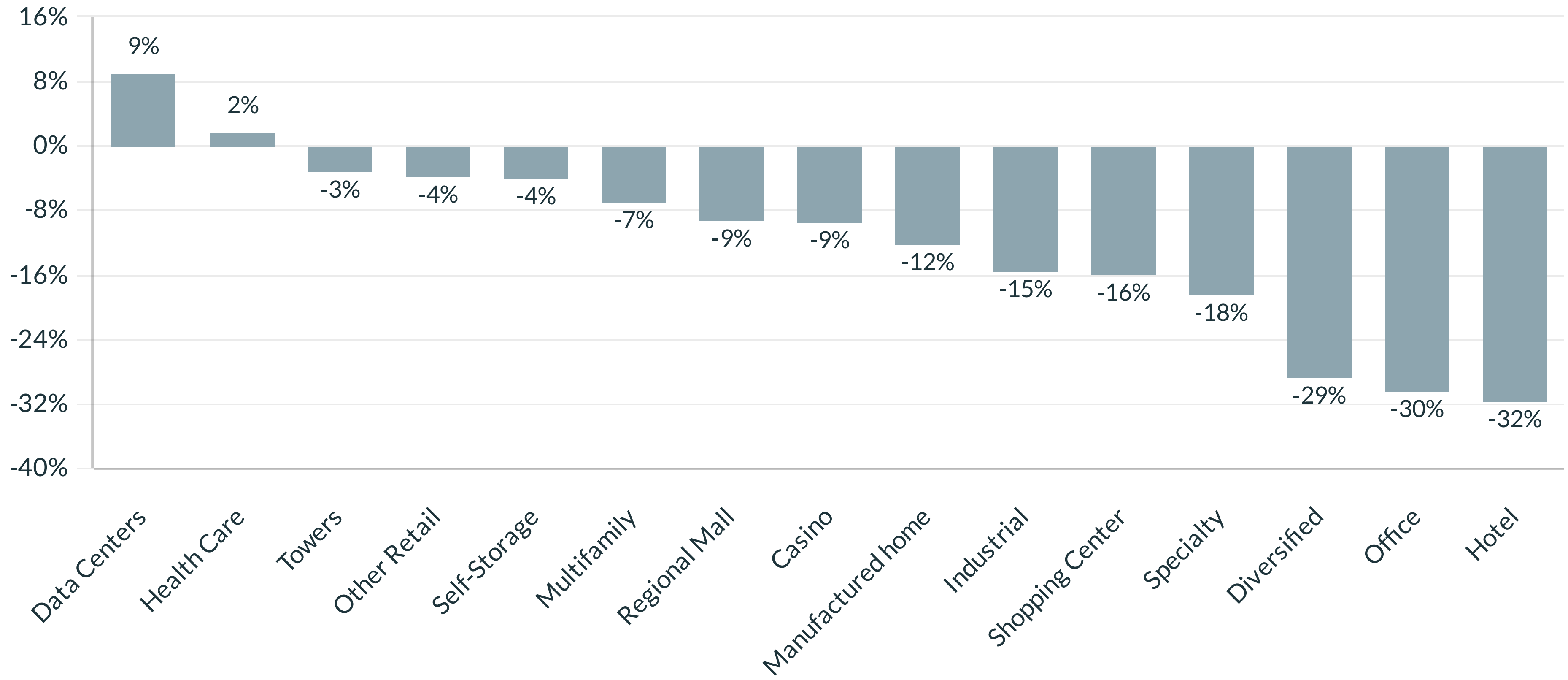
-30%

AVERAGE GLOBAL REIT NAV DISCOUNT TO PRIVATE MARKET VALUES REMAINS DEEP

Most U.S. sectors are trading at discounts

Data center and health care REITs are now the only sectors to trade at a premium to NAV in the public market. Offices are at a 30% discount and hotels are at -32%

Premiums / discounts to REIT NAV by U.S. sector



-17%

U.S. REITS TRADE AT A 17% DISCOUNT TO PRIVATE MARKET VALUES

Source: S&P Global Market Intelligence LLC, July 7, 2024

Positioning: mining value, harnessing growth

The underperformance of REITs compared to broader equities over the past two and a half years raises the question of whether the time is ripe for a comeback. The valuation case remains compelling, with REIT stocks trading at discounts to both broader equities and private market values. However, the catalyst remains uncertain. While the Fed looks likely to cut rates at least once in 2024, the tightening that started in 2022 has pinched the commercial real estate market. Sugi's portfolio positioning looks much the same as last quarter, with growth in digital infrastructure and healthcare alongside value in net lease, residential, and shopping centers.

- **Valuation**
  - REIT Price/FFO multiples (19x) are trading below the S&P 500 P/E multiple (27x).
  - Price/NAV -30% globally and -17% in the U.S.
  - Small caps trading at notable discounts to larger peers
- **Fundamentals**
  - REITs should generate ~2-3% NOI growth in 2024
  - Supply remains below average levels, except for pockets such as Sunbelt multifamily and industrial
  - Demand for most property types remains steady; office remains a notable exception
  - Industrial is seeing an inflection point downward, but that may reverse later this year
- **Growth**
  - Consensus REIT FFO estimates remain at ~4% earnings growth in 2024
  - Though the U.S. appears on track to achieve a "soft landing," global post-pandemic economic disruptions are driving investor caution
- **Capital**
  - Borrowing rates fell this quarter as spreads compressed
  - Fed's actions have negatively impacted asset pricing, the financing market, and transaction volumes
  - Fed’s inflation-fighting efforts have created some stress in the banking system
  - REIT balance sheets still in great shape, with average leverage ~35%, despite decrease in asset values
  - Large recent JVs demonstrate private capital demand for REIT assets
- **Portfolio preferences**
  - **Data centers**: The demand for data center space remains robust, with limited availability
  - **Health Care**: Favorable conditions are prevalent in the healthcare sector, with enhancements in senior housing, skilled nursing, and medical office fundamentals, along with heightened life science leasing demand
  - **Net Lease**: Net lease REITs have solid balance sheets and reasonable valuation
  - **Industrial**: The industry currently grapples with supply obstacles, yet boasts inherent growth. Rent hikes may decelerate, but anticipated supply is poised to diminish.
  - **Digital infrastructure (e.g. billboards)**: The stocks are cheap and the sector is in the early innings of digital adoption
  - **Residential**: The residential sector shows contrasting conditions among multifamily, manufactured housing, and single-family rentals (SFRs). We still prefer SFR
  - **Shopping Centers**: We see a solid operating environment but slower FFO growth in 2024
  - Strong balance sheets haven't gone out of style
  - We expect more M&A in 2024

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Sector Outlooks

Industrial: speed hump

The entire industrial sector suffered a rude awakening when PLD cut guidance on slower demand. We see that headwind as in the price, though, and a more favorable supply/demand balance next year as supportive of the stocks

- **Market slow but steady**
  - Macro data in a holding pattern, indicating limited near-term recovery
  - Bifurcated performance: smaller spaces and select markets performing well
- **Key data mixed**
  - Air Freight: -4.6% YoY, Sea Freight: +0.1% YoY
  - Goods consumption: +2.0% YoY
  - Inventory-to-sales ratio: 1.37x
  - National supply concentrated in spaces over 400ksf
- **Leasing weak**
  - Year-to-date leasing down 80bps YoY
  - New leasing down 4.3% YoY
  - Vacancy rate at 5.4%, up 190bps YoY
- **Valuations now much more reasonable**
  - Industrial REITs: -16.4% YTD, -10.0% YoY
  - Implied cap rate: 5.29%, up 71bps from Q1
  - 2024E FFO Multiple: 20x, down 3x YoY
- **Reasons for optimism**
  - Supply growth expected to drop sharply, potentially improving market balance
  - High-quality assets attracting more bidders
  - REITs are developing long-term strategies to navigate slowing fundamentals

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Sources: Company reports, Baird research, Sugi Capital Management

Residential: strong investor and occupier demand

Demand for all forms of residential real estate remains strong, outpacing high supply levels in most geographical areas. Strategic focuses include value-add acquisitions and urban market performance

- **Market overview**
  - Steady demand in the single-family rental market despite macroeconomic headwinds
  - Apartment REITs showing resilience amidst supply pressures in Sun Belt
  - Differing strategies between major REITs in pricing and occupancy
  - Urban areas experiencing higher demand compared to suburban
- **Data mostly positive**
  - AMH new lease growth: 6.2% in June, up from 5.5% in May; INVH new lease growth: 2.0% in June, down from 2.6% in May
  - Rental listing rate for AMH: 5.3% in June, up from 3.0% in May; for INVH: -3.4% in June, down from -1.9% in May
  - Average rental growth for apartments marginally positive YoY across major markets
  - Apartment vacancy rates: 6.2%, down 50bps YoY
- **Leasing OK**
  - SFR: AMH average weeks on market: 5.0 weeks in June, improving from 5.3 weeks in May. INVH average weeks on market: 4.0 weeks in June, up from 3.7 weeks in May
  - Lease renewal rates for apartments: 65% on average, reflecting stable occupancy
  - New lease growth for apartments has been negative in many markets but market sentiment improving
- **Valuation**
  - Apartment REITs trading at a 7% discount to NAV, SFRs closer to par and Manufactured homes at a 12% discount
  - Apartments 2024 FFO multiple 17x; SFR 20x; Man. homes 19x

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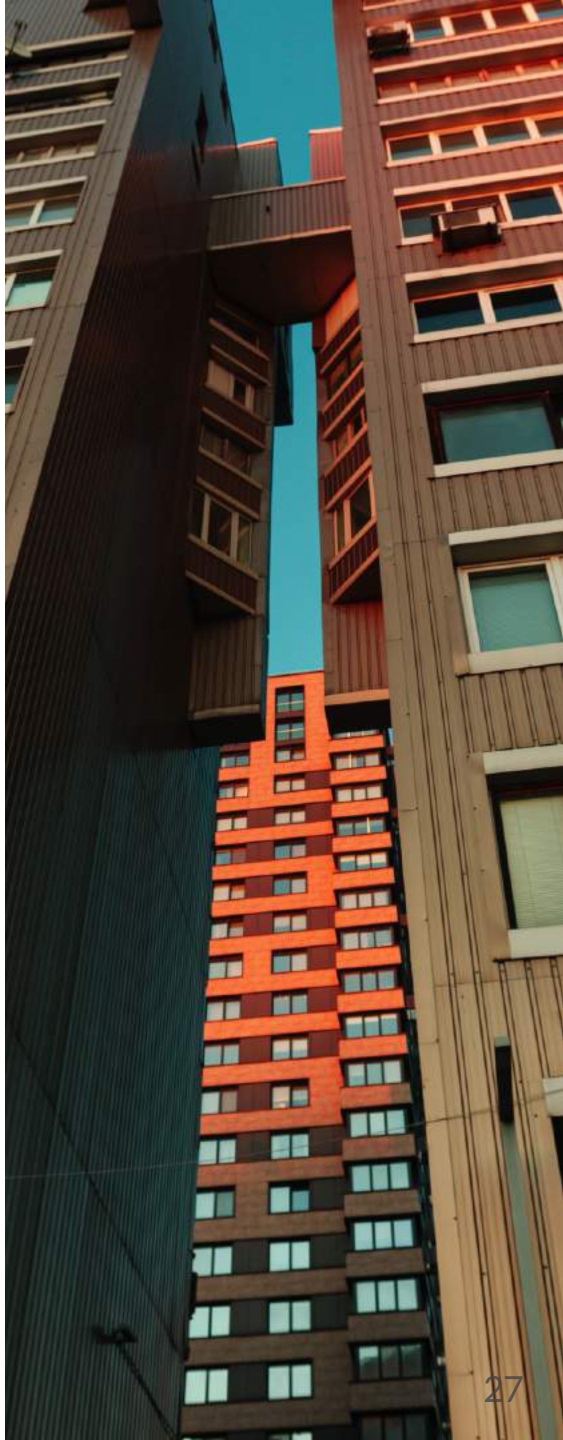
Sources: Company reports, Morgan Stanley Research, AlphaWise Data, CBRE Research, NAREIT Data, Sugi Capital Management



Shopping centers: cheap; slow but steady growth

Occupancy and leasing are expected to drive low single-digit earnings growth in 2025, despite the 2024 underperformance due to lower-than-anticipated same-store NOI. External growth may be an upside driver in 2025

- **Market overview**
  - Increased acquisition activity, with optimistic outlooks despite rising competition
  - M&A likely in shopping centers, with focus on high demographic areas
  - Pharmacy footprints present re-tenanting challenges
  - Grocers thriving, but low-end gaining market share
  - Institutional investors re-engaged, with renewed interest in retail
- **A few tenant storm clouds**
  - Tenant demand healthy but possibly peaked
  - Anchors more flexible, but annual rent bumps unlikely
  - Small tenant fall-out may have started, with increased bad debt among mom & pop tenants
  - Development costs remain high, with selective growth in store counts
- **Capital markets flashing green**
  - Debt markets open, with compressed spreads for capital
  - Shopping center cap rates: high 5s to low-6% in primary markets, mid 7s to low-9s for weaker products
  - Increased institutional interest, particularly in grocery-anchored assets
  - Blackstone viewed as a potential wild card in M&A activity
- **Valuation**
  - Shopping centers' 2024e FFO multiple is 13x
  - 2024e FFO growth: +2%
  - Implied cap rate 7.2%
  - Discount to NAV: 16%

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Sources: Company reports, BMO Research, Sugi Capital Management

Regional malls: delightful discoveries

Solid free cash flow, occupancy gains, dividend raises, and monetization of retail investments have marked the malls' 2024 so far. Are more positive surprises in store?

- ## Market overview
  - Tenant demand remains robust with healthy occupancies
  - Retailers are expanding their physical footprints despite e-commerce growth
  - Tenant credit health is strong, with low levels of delinquencies and bankruptcies
- ## Differing strategies and performance
  - **Simon Property Group (SPG):** Demonstrated strong performance with increased NOI from top assets. Focus on enhancing tenant mix and upgrading properties
  - **Tanger Factory Outlet Centers (SKT):** Benefiting from strong consumer spending and high occupancy rates. Strategic investments in popular retail destinations are paying off
  - **Macerich (MAC):** Facing challenges with re-tenanting and redevelopment projects. However, high-quality portfolio and strategic locations provide long-term growth potential
- ## Mall metamorphosis
  - **Experiential Retail**: Increasing focus on experiential retail to drive foot traffic and enhance consumer engagement. Entertainment, dining, and lifestyle brands are key components.
  - **Investor Sentiment**: Positive, with strong interest in well-located, high-quality retail assets. Institutional investors are re-entering the market, driving up valuations
  - **Long-Term Outlook**: Favorable, with anticipated growth in tenant demand and rental rates. Continued urbanization and population growth in key markets support positive trends
- ## Valuation - still pretty cheap
  - SPG: Current 2024e FFO multiple is approximately 12x
  - SKT: 13x
  - MAC: 9x

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Sources: Company reports, JP Morgan, Sugi Capital Management

Office: whispers of its end are overstated

The office market has not cratered (as many predicted) but questions remain. Can New York office REITs maintain their strong performance through robust leasing and advantageous joint venture sales and refinancing? Can AI-driven demand fuel a leasing revival in the West?

- **Market remains weak**
  - Market in transition with lower demand and higher borrowing costs
  - Publicly traded REITs best positioned to access multiple capital channels
  - Sunbelt regions showing relative leasing market share gains
- **Uninspiring demand drivers**
  - Utilization metrics: 52% nationally, with Tuesday swipes at 61.3% of pre-pandemic levels
  - LinkedIn hiring trends: down 6.0% YoY, improving month-over-month
  - Metro ridership: up 1.2% YoY, 1.3% MoM, still 29% below pre-pandemic levels
- **Continued soft leasing**
  - National office vacancy: 19.0%, up 120 bps YoY
  - Sublease vacancy: 103.6 million SF, up 3.6% YoY
  - Net absorption: -26.7 million SF TTM
- **Stocks are cheap**
  - Office REITs: -6.2% YTD, underperforming market
  - 2024e FFO multiple 10x; 30% discount to NAV
  - Implied cap rate: 9.24%, -16bps YoY
  - REIT basis: $240/sf, +3.8% YoY
- **Reasons for optimism**
  - Improved debt market confidence for select REITs
  - Healthy discounts in shares despite improving occupancy trends in select markets
  - Increased leasing and capital markets activity expected in coming quarters

Sources: Company reports, JPM Morgan, Sugi Capital Management

Health care: tailwinds

Health care REITs are seeing stable tenant demand with high occupancy rates, especially in senior housing and medical offices. The sector sees strong leasing activity and strategic acquisitions, with cap rates compressing due to high investor demand. Positive investor sentiment and favorable long-term outlook are driven by the aging population and increasing healthcare needs

- **Market overview**
  - Stable tenant demand with a focus on senior housing and medical offices
  - High occupancy rates in top-tier properties
  - Continued consolidation with strategic acquisitions by major players
- **Key data points**
  - Strong leasing activity with long-term leases providing stable cash flows
  - Cap rates for higher quality healthcare properties range from 5% to 6%, indicating strong investor demand
  - Favorable debt markets with lower borrowing costs for REITs
- **Company-specific updates**
  - **WELL:** Increased NOI, focusing on enhancing tenant mix and property upgrades
  - **PEAK:** Making strategic investments in senior housing and life science properties
  - **VTR:** Challenges in re-tenanting short term, but high-quality portfolio offers long-term stability and growth
- **Valuation rich, on average**
  - Health care REITs trading at 2024e FFO multiple of 19x, but with wide ranges (9x to 26x)
  - 2024e FFO growth: +7%
  - Implied cap rate 5.5%
  - **Premium** to NAV: 14%, driven mainly by WELL

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Sources: Company reports, Deutsche Bank Research, Sugi Capital Management

Self storage: looking far, far forward

The single-family residential market's sluggishness has dampened the self-storage sector. But recent stock recovery suggests a potential turnaround. Will new tenant pricing shift from double-digit declines to positive growth, driving an upside surprise in 2025?

- **Market overview**
  - Storage rental pricing growth for new tenants decelerated to -11.2% YoY as of July 2nd, compared to -10.8% at the end of June and -15.0% at the end of May
  - Absolute pricing levels of $183 a month for a 10x10 unit were -3.7% MoM ($190 in June 2024) and -11.2% YoY ($206 in July 2023)
  - Existing tenant rate increases remain stable despite the deceleration in new tenant pricing
- **County level data - wide range**
  - Top 50 counties showed average YoY pricing growth of -13.3%
  - Range from -41.3% for Lee, FL to +5.1% for Riverside, CA.
- **Looking forward to easier comps**
  - Major REITs YoY pricing performance: PSA -9.7%, EXR -9.5%, LSI -14.1%, CUBE -11.5%, NSA -12.0%
  - July pricing weaker than expected but stable existing tenant rates
  - Tenant pricing YoY growth decelerates during peak leasing season
  - New supply deliveries expected to slow over the next 2 years
  - Market remains cautious with new tenant pricing but positive on long-term fundamentals
- **Valuations in line with market**
  - Storage REITs' valuations are around 18x FFO multiples vs. a 2-year average of 17x and a 5-year average of 20x

Sources: Company reports, BMO Research, Sugi Capital Management

Net lease: making the best of it

Net lease REITs are leveraging tenant relationships to manage risk and secure deals, though higher capital costs limit some acquisitions. REITs can still pursue select opportunities, including sale leasebacks and development deals

- **Market overview**
  - Large growth opportunities with the current cost of equity as a growth governor (e.g. ADC)
  - Elevated activity in buying and selling over the last 30 days (PINE)
  - High tenant demand and stable occupancy rates in top-tier properties
- **Investment market**
  - Targeting a 100 bps spread over the cost of capital, equating to a 7.4% cash yield (ADC)
  - Sellers remain patient with cap rates up to 7.5-8% in some categories (FCPT)
  - Compressed cap rates for high-quality assets, indicating strong investor demand
  - Favorable unsecured debt markets with relatively low borrowing costs (GTY, FCPT)
  - Need a $1-2/share stock increase to execute on shadow pipeline (FCPT)
- **REIT opportunities**
  - Seeing distressed opportunities and aiding retailer growth (ADC)
  - Low probability of acquiring current loan book assets but looking for additional opportunities (PINE)
  - Increasing investment volume with more sale-leaseback deals (NTST)
  - Monitoring Dollar Tree situation; a risk, but potential for growth in exposure (O)
- **Valuation is reasonable given current cost of capital**
  - Net lease REITs trading at 2024e FFO multiple of 12x (30% below market average)
  - 2024e FFO growth: +2%
  - Implied cap rate 7.0%
  - **Discount** to NAV: 4%

Sources: Company reports, Sugi Capital Management, Sugi NAREIT meetings

Data centers: AI hype

Data center stocks trade at full valuations, as optimism around AI demand and improved pricing trends continues. The most impressive takeaways from our June NAREIT meetings were the acceleration in Cloud/AI capex by the hyperscalers. Enterprise trends remain mixed, though

- **Leasing demand**
  - Digital Realty (DLR) reported record bookings last quarter, driven by strong demand from cloud/hyperscale customers, particularly AI
  - Equinix (EQIX) holds a positive view on the business and demand pipeline, with an upbeat stance on 2Q
- **Pricing and market dynamics**
  - Favorable pricing environment for DLR due to lower vacancies and power constraints in key markets like Northern Virginia
  - AI-related demand boosting DLR's bookings and anticipated to increase enterprise demand for EQIX
- **Leverage and growth**
  - DLR's leverage now below mid-5x target after recent equity raise and JV activities
  - DLR pursuing incremental development activity with healthier yields due to favorable dynamics
  - DLR expects improving bottom-line growth from 2025E onwards, with mid single digits FFO/share growth next year
  - EQIX leveraging cloud on-ramps as a competitive advantage, with expected growth in AI-driven enterprise demand
  - EQIX aiming for 7-10% AFFO/share growth, with margin expansion playing a key role
- **Premium REIT valuations**
  - Data centers are one of the few sectors trading at a premium to NAV (~9%)
  - 23x 2024e FFO multiple (30% higher than the sector average)

Sources: Company reports, Sugi Capital Management, Sugi NAREIT meetings

Cell tower REITs: have not found the bottom

The entry point for North American tower names may appear attractive, as they are trading at valuation levels near multi-year lows. The tower stocks remain under pressure, however, due to elevated rates/inflation and FX headwinds

- **Leasing and demand**
  - **AMT:** Record bookings, strong future demand, focus on 5G and 4G
  - **CCI:** Expanding small cell and fiber network, long-term contracts
  - **SBAC:** High leasing activity, growth in international markets
- **Pricing and market dynamics**
  - **AMT:** Favorable pricing due to lower vacancies and power constraints
  - **CCI:** Positive pricing trends, strong demand
  - **SBAC:** Positive pricing trends
- **Cost control and margin expansion**
  - **AMT:** Focus on cost control, SG&A expense reduction
  - **CCI:** New CEO, with focus on operational efficiency driving margin expansion
  - **SBAC:** "Strategic cost management" (cost cutting)
- **Data center integration**
  - **AMT:** Positive performance from CoreSite acquisition, strong leasing
  - **CCI:** Integration of data centers to enhance overall portfolio performance
  - **SBAC:** Seeing increased demand for data centers and related infrastructure
- **Valuation**
  - Cell tower REITs trade at a 3% discount to NAV
  - 17x 2024e FFO multiple (10% lower than the overall REIT average), 2% growth

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Sources: Baird research, Sugi Capital Management, Sugi NAREIT meetings

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